Policy & Resources Committee
11th June 2018

Title	**Business Planning 2018-24**
Report of	Councillor Richard Cornelius
Wards	All
Status	Public
Urgent	Yes
Key	No
Enclosures	Appendix A – Medium Term Financial Strategy (MTFS) to 2025 Appendix B – Capital additions, deletions, slippage & accelerated spend Appendix C – Care Leavers consultation results
Officer Contact Details	Kevin Bartle – Director of Finance (S.151 Officer) kevin.bartle@barnet.gov.uk Jenny McArdle - Assistant Chief Executive jenny.mcardle@barnet.gov.uk Paul Clarke – Head of Finance (Deputy s151 Officer) paul.clarke@barnet.gov.uk

Summary

This paper provides an update on the council's financial position and the process for updating the council's Medium Term Financial Strategy (MTFS) to 2023/4, to ensure that future challenges are managed and opportunities realised. The paper also sets out the need for amendments to the capital programme.

This report seeks approval from Policy and Resources Committee on the following:

a) The approach to developing a new corporate plan for April 2019 and shaping options to address the financial gap in the medium term;

b) Changes in the financial strategy of the organisation;
c) Movements to the budget in 2018/19; and
d) The need for amendments to the capital programme.

Recommendations

The report recommends that the Committee:

1. Notes the draft 2017/18 outturn position described in paragraph 1.2.1;

2. Approves the New Homes Bonus Reserve reassignment described in paragraph 1.2.5 and the associated proposed policy change set out in paragraph 1.2.6;

3. Notes the value of General Fund Balances described in paragraph 1.2.8;

4. Notes the current and forecast values of reserves set out in Table 1;

5. Notes the remaining in year pressure in 2018/19 of £9.5m as per paragraph 1.2.12;

6. Approves the transfers from contingency as set out in paragraphs 1.2.14-1.2.18;

7. Approves the debt write offs over £5,000 described in paragraphs 1.2.20 and 1.2.24;

8. Approves the revisions to the capital programme set out in paragraphs 1.3.3-4 and Appendix B;

9. Notes that proposals will be prepared to delete capital projects to fit within the approved budget, for consideration at an additional Policy and Resources Committee meeting proposed to be scheduled in July;

10. Notes the current capital receipts position set out in paragraph 1.3.7;

11. Notes that officers are exploring options to meet the cashflow pressure resulting from additional borrowing required to finance the Thameslink Brent Cross West station until the anticipated Business Rate increase repays scheme costs as set out in paragraphs 1.4.3-6;

12. Notes the gap within the Medium Term Financial Strategy (MTFS) to 2022, as set out at Appendix A and the assumptions underpinning this in para 1.5.22;

13. Notes the process for developing a new corporate plan and MTFS set out in paragraphs 1.5.19-21;

14. Notes the consultation results in Appendix C pertaining to a policy for offering council tax relief to care leavers based on guaranteed relief for their first two years of independent living and a presumption in favour of granting relief should it be required after that up to age 25; and recommend the policy to Council, to be implemented and backdated to 1 April 2018.

1. WHY THIS REPORT IS NEEDED

1.1 Executive Summary

1.1.1 Business planning and strategic financial management enable the council to plan its future direction on the basis of the best strategic fit between the resources available to meet stakeholder needs and expectations and the environmental conditions which prevail. This report sets out how the council intends to do this and the assumptions it has made.

1.1.2 In March 2018, the council set a Medium Term Financial Strategy (MTFS) covering the period 2018 to 2020. The MTFS for this period identified a total gross budget gap of £39.1 million; after mitigating actions and the planned use of reserves, this resulted in a balanced position for 2018/19 and a remaining gap of £5.9m anticipated for 2019/20.

1.1.3 The council's outturn position for 2017/18 reported a significant overspend of £7.9m. This outturn is stated after the net drawdown from specific and general earmarked reserves totalling £5.6m. The gross overspend for the council before the use of reserves was therefore £13.5m. This overspend is also in addition to the planned use of reserves for 2017/18 of £7.7m. Overall, the total call on revenue reserves and balances for 2017/18 has been **£21.2m**.

1.1.4 Given the scale of the 2017/18 overspend and the challenges of delivering some of the previously approved savings, the council now believes it has financial pressures which cannot be easily mitigated during 2018/19. Urgent action is already underway to resolve these in-year budget pressures, however the sum still requiring mitigation is **£9.5m**.

1.1.5 The council's Earmarked Reserves reduced to £75.8m at the end of 2017/18 and are expected to be £37.2m by the end of the current MTFS period. This balance includes both capital reserves and ringfenced amounts. The equivalent balance excluding these items is £41.6m at the end of 2017/18 reducing to **£7.6m** at the end of 2019/20.

1.1.6 The council's current capital programme totals £734.5m, of which £370.5m is planned to be funded by borrowing. The currently anticipated cost of borrowing is expected to exceed the revenue budget therefore it is recommended that the Chief Executive present options to reduce this over-programming to a July 2018 Policy and Resources Committee.

1.1.7 A further estimated £181.2m would be needed to fully fund the Thameslink station project which will necessitate increased borrowing, which has not yet been factored in to the council's financial plans. The cost of this borrowing could be funded by the DCLG grant prior to the agreed ringfencing of business rate growth coming on stream. A decision on the borrowing and associated financing of this will be sought from Policy and Resources Committee later this year after further consideration of the financing options.

1.1.8 The updated MTFS shows an anticipated budget gap of £42m to 2021/22. High level calculations estimate this to be **£62m** when extended out to 2024/2025. The council is working on a Priorities and Spending Review project to identify how the organisation will strategically respond to this significant challenge.

1.1.9 The Children's Services Improvement Action Plan recognises the need to improve outcomes for care leavers, and in particular to ensure that they have access to appropriate discretionary funds and reliefs, improve outcomes and ensure they are adequately prepared for independent living. Following Policy and Resources Committee on 13 February 2018, the Deputy Chief Executive has consulted on a policy for offering council tax relief to care leavers based on guaranteed relief for their first two years of independent living. Consultation responses were strongly supportive of the change and therefore a recommendation is included within this paper to endorse the change to Full Council.

1.2 Budget Management 2018/19

Revenue Outturn for 17/18

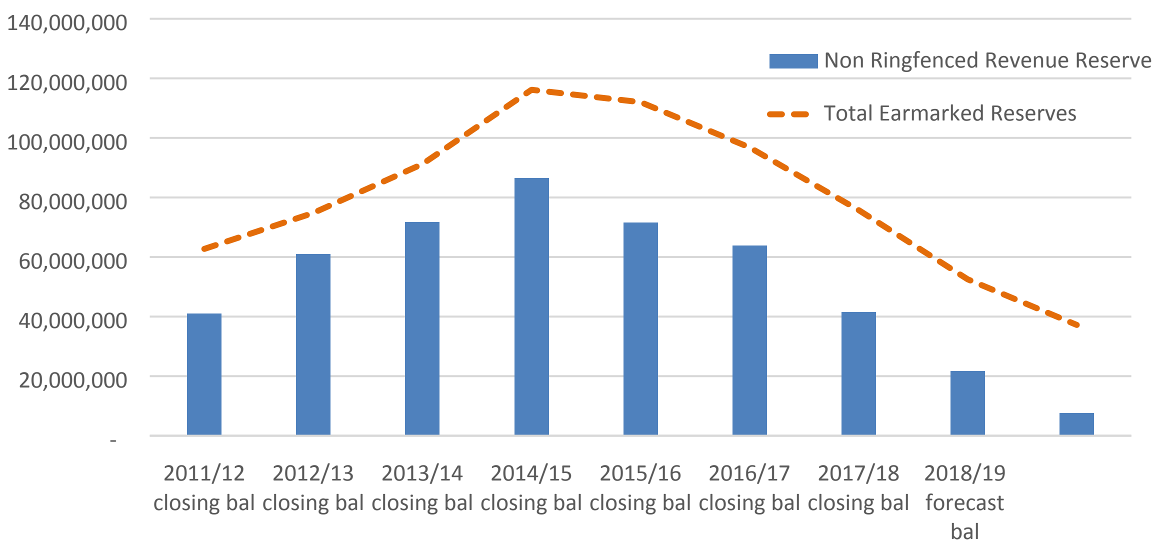
1.2.1 A detailed analysis of the 2017/18 outturn will be presented to the Financial Performance and Contracts Committee in July 2018. However, Policy and Resources Committee are asked to note the high level position. As at Quarter 3, the council's forecast outturn position was an overspend of £6.6m before the use of reserves or balances. By year-end this position had deteriorated to a gross £13.5m; specific and general earmarked reserves totalling £5.6m were then applied resulting in a net overspend of **£7.9m**. This overspend is in addition to the planned use of reserves for 2017/18 of £7.7m. The total net revenue call on reserves and balances for 2017/18 was, therefore, **£21.2m**. The ongoing impact of this together with planned mitigations are discussed from paragraph 1.2.9.

Reserves and General Fund Balances

1.2.2 A Local Authority has a variety of types of reserves and balances. Some of these are available to use (such as Earmarked Reserves), and some of them are not available (such as those created when the valuation of a property increases). The only two sources of funds available to support the General Fund position are Earmarked Reserves and General Fund Balances. Reserves are held to be allocated to fund specific non-recurrent expenditure and General Fund Balances are utilised to deal with any shocks or volatility such as in year overspends.

1.2.3 General Fund balances also include school balances. School balances are ringfenced and therefore unavailable to the council. All General Fund Balance references in this report therefore refer to the non-schools element of the balance.

1.2.4 As a result of the outturn position described above, the council's Earmarked Reserves have reduced from £96.8m to £75.8m. Of the £75.8m, £22.6m relates to Capital – Community Infrastructure Levy and £11.6m is ringfenced for specific purposes. This leaves £41.6m available to support the revenue position. An analysis of revenue and total reserve movements since 2011 is shown below. This position is explained in more detail in Table 1 at the end of this section of the report. The movement in Earmarked reserves since 2011/12 is displayed on the graph below.



1.2.5 In arriving at £41.6m the Committee are requested to endorse a recommendation to realign the New Homes Bonus from capital to revenue. As a financial policy, the New Homes Bonus has previously been substantially allocated to the Capital Programme to support infrastructure investment. The value of this reserve is presently £19.3m. Given the precarious position in relation to remaining Earmarked revenue reserves it is recommended that the policy is changed and that the purpose of this reserve is reassigned to support the revenue position of the council. This would bring the council into alignment with many other authorities who have always supplemented revenue budgets with their New Homes Bonus receipts.

1.2.6 The preceding paragraph referred to the repurposing of the New Homes Bonus (NHB) reserve. The council also has an option to realign in year and ongoing NHB receipts fully to support revenue. The current MTFS is balanced by the planned use of reserves totalling £7.7m in 2018/19 and £10m in 2019/20. Owing to the trajectory of reduction in the council's reserves it is recommended that the full remaining value of NHB income is used to partially remove the planned drawdown of reserves. This decision would allow £5m of in-year NHB receipts to reduce the use of reserves used to balance the budget in 2018/19. This increases to £7.7m in 2019/20.

1.2.7 Should the New Homes Bonus reserve be reallocated to support the revenue position there will be a shortfall of funding in the Capital Programme. As such borrowing will need to be increased if we maintain the same level of capital programming, which carries a revenue implication. The approximate annual cost of realigning the £19.3m reserve will be £1m per year. The additional £5m per annum will also require an increase in revenue costs of £0.3m p.a. The total capital financing cost, therefore, of releasing the reserve for revenue use and of recognising an additional £5m income will be £1.3m in 18/19. This has the effect of reducing the amount that will need to be drawn down from reserves to balance the currently approved MTFS over 2018/19 by £3.7m. This treatment is included in the financial pressures discussed later in this report and is laid out in the MTFS at appendix A. Recommendation 2 seeks the Committees approval to adopt this approach.

1.2.8 At the start of 2017/18 General Fund balances totalled £9.6m. The overspend during the year would have depleted this value close to zero. The Section 151 Officer is responsible for setting an appropriate level of General Balances and has therefore made the decision to top up the balance to £15.1m so that the council begins the new year with sufficient insulation to shocks and other unexpected events. This top up was funded by the realignment of revenue reserves. The movement in General Fund Balances since 2011/12 is shown in the graph below.

	£m
General Fund Balance brought forward 1 April 2017	**(9.614)**
Outturn variance	7.886
Transfer from earmarked reserves	(13.355)
General Fund Balance 31 March 2018	**(15.083)**

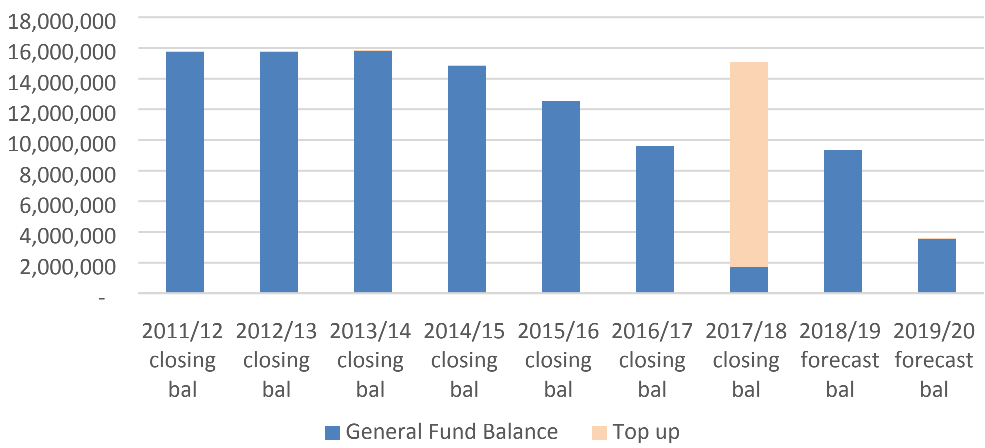


Table 1- Reserve Forecast

	2011/12 closing bal	2012/13 closing bal	2013/14 closing bal	2014/15 closing bal	2015/16 closing bal	2016/17 closing bal	2017/18 closing bal	2018/19 forecast bal	2019/20 forecast bal
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital - CIL	8,924,656	3,027,452	3,664,975	9,364,635	19,259,530	17,753,920	22,560,317	22,560,317	22,560,317
Revenue									
New Homes Bonus	1,517,737	14,955,817	21,572,154	29,455,671	19,621,845	20,392,926	19,330,163	4,934,852	4,934,852
MTFS	-	-	-	-	-	15,424,949	11,044,689	9,950,000	-
Revenue - Uncommitted	5,100,000	6,516,567	9,576,837	7,944,327	13,434,291	9,160,336	2,612,476	2,612,476	2,612,476
Transformation	10,000,393	13,543,810	11,292,515	15,079,268	12,652,758	6,753,854	3,432,276	1,716,138	-
Revenue - Service Specific	24,424,405	25,964,033	29,325,102	34,029,618	25,819,407	12,102,471	5,143,513	2,571,756	-
Non Ringfenced Revenue Reserves	**41,042,535**	**60,980,228**	**71,766,608**	**86,508,885**	**71,528,301**	**63,834,536**	**41,563,117**	**21,785,222**	**7,547,328**
Ringfenced – i.e. unavailable for general use									
DSG	2,108,940	2,083,188	3,427,665	4,855,544	5,019,442	4,224,809	500,770	500,770	500,770
Collection Fund Smoothing Reserve	-	-	-	-	-	-	2,482,000	2,482,000	2,482,000
Housing Benefits	4,148,489	3,437,036	7,179,995	7,771,955	8,035,718	1,900,365	3,542,449	3,542,449	3,542,449
North London Sub Region	3,267,002	2,737,879	1,228,462	794,316	642,599	604,835	567,441	567,441	567,441
PFI	3,234,783	2,544,612	3,116,871	3,715,079	4,265,492	4,286,350	-	-	-
Public Health	-	-	831,000	1,209,000	1,335,678	2,358,037	2,391,881	-	-
Special Parking Account	409	409	409	1,936,000	1,914,000	1,837,000	2,149,000	1,074,500	-
Total Ringfenced	**12,759,623**	**10,803,124**	**15,784,402**	**20,281,893**	**21,212,929**	**15,211,395**	**11,633,541**	**8,167,160**	**7,092,660**
Total Earmarked Reserves	**62,726,814**	**74,810,804**	**91,215,985**	**116,155,413**	**112,000,760**	**96,799,852**	**75,756,976**	**52,512,700**	**37,200,305**

Emerging Financial Pressure

1.2.9 Given the scale of the outturn and recurrent nature of many of the pressures identified, Chief Officers have been working on dealing with the emerging pressures to the MTFS. This proactivity in dealing with problems before Q1 forecast numbers are produced will maximise the scope for swift and targeted action and give the authority the best chance to balance its in-year position by the 31st March 2019.

1.2.10 Following some robust mitigating actions, the remaining unbudgeted pressures are currently forecast to total £11m during 2018/19.

1.2.11 The council will seek to further reduce this pressure by ensuring that its possible external funding sources are maximised. It is anticipated that an additional £1.5m income can be achieved by reviewing its recharges to external sources and the identification of additional income within the Environment group of services.

1.2.12 Assuming all the anticipated actions are put in place the net pressure remaining is therefore estimated at **£9.5m**. Chief Officers are continuing to work to mitigate this pressure and recognise their responsibilities to do so under the authority's financial regulations. Progress in achieving this will be closely monitored, supported and regularly reported by the s151 Officer and his team. Additional possible actions include control and review of all agency placements and a potential vacancy freeze within the organisation.

1.2.13 At present, none of the activity planned or envisaged to mitigate this requires a policy decision therefore this report does not include any recommendations required to achieve these outcomes. Any future recommended policy changes will be presented to the appropriate committee.

Transfers from contingency

1.2.14 Each year the council sets aside an amount of money in contingency to cover costs of pay awards and inflation. In accordance with the council's financial regulations, budget virements from contingency over £250,000 have to be approved by the Policy & Resources Committee.

1.2.15 The improved better care grant and adult social care support grant £6.2m was announced as part of the final Local Government Finance Settlement. This funding was included within the Business Planning report in February 2018 and now needs Committee approval to allocate to Adults Social Care.

1.2.16 An on-going allocation from contingency for pressures in Family Services was also included within the Business Planning report. An allocation of £1.8m to the Family Services budget is now recommended for approval.

1.2.17 In addition to the specific allocations above, the Committee is requested to approve an on-going allocation from contingency to cover employee pay inflation across the council in line with the table below.

Service Area	£
Assurance	41,260
Cambridge Education	122,020
Children's Family services	413,950
Commissioning	140,250
CSG	264,290
Parking Infrastructure	21,100
Street Scene	447,580
Contingency	(1,450,450)

1.2.18 The pressures described in paragraph 1.2.10 are calculated after these additional allocations.

Additional funding

1.2.19 Additional business rates income of £1.4m has been calculated as a result of increased estimated benefits through the London Business Rates Pool. The Committee is requested to allocate this additional income to contingency in order that it may be allocated to unforeseen pressures in year. This will leave an unallocated contingency value of £2.1m.

Write Offs

1.2.20 Following the meeting of the Assets, Regeneration and Growth Committee on the 30th November 2015 a recommendation was made for the Policy and Resources Committee to write off £3.5m of a £5m loan to Genesis Housing Association as part of a £6m package to buy out their contractual interests in plot 8 Grahame Park in order to locate the council's new offices on the land. The council has provided £3.5m within its bad debt provision to recognise that this amount is not receivable and a recommendation is seeking this Committee's approval to write off this value.

1.2.21 Actions taken to recover debt over £5,000 are as per the council's Income and Debt Management Policy. If an invoice is raised and remains unpaid, the "dunning" process comes into play as follows:

- Level 1 – a reminder is sent after 21 days
- Level 2 – a second notice is sent after 35 days i.e. a further 14 days

1.2.22 The Income team have reviewed all Level 2 cases remaining outstanding greater than 49 days (allowing a further 14 days to pay after the Final Notice) to decide whether the debt recovery should proceed.

1.2.23 Depending on the type of debt, customers and circumstances, the use of debt collectors or issuing proceedings in the County Court is considered. Every case is treated individually, hence the circumstances of each debt is assessed prior to taking a decision on the recovery of the debt in conjunction with the delivery unit.

1.2.24 Sundry debt write-off's totalling £0.06m relating to former Temporary Accommodation tenant's arrears are requested for write off, the details of which can be seen in the table below.

ACCOUNT NO	AMOUNT	TERMINATION DATE	REASON
170062340	£5,469.51	04/04/11	Statute Barred
170130025	£7,149.54	08/05/11	Statute Barred
170136468	£5,919.09	26/05/11	Statute Barred
170105482	£7,049.40	10/07/11	Statute Barred
170130160	£7,551.06	08/08/11	Statute Barred
170133897	£5,232.00	17/07/11	Statute Barred
170106280	£6,299.29	18/09/11	Statute Barred
170146398	£7,513.53	03/10/11	Statute Barred
170134588	£7,121.64	08/12/11	Statute Barred
TOTAL	**£59,305.06**		

1.3 Capital Programme

1.3.1 Investing in the future is a key strand of the council's response to the scale of the challenge facing Local Government from funding reductions and increasing demand. Barnet will not be able to support the growth needed to meet the needs of a growing population and ensure the council's financial independence without investment for the future. As well as ensuring the borough's local infrastructure remains fit for purpose and supporting the growth agenda, the capital programme also includes a number of additions that enable the achievement of the revenue savings proposals. The current approved capital programme totals £734.5m up to 2025, funded from a combination of capital receipts, borrowing, revenue and external grant contributions.

Changes to the Capital Programme

1.3.2 Additions and deletions to the capital programme are required to be approved by Policy and Resources Committee.

1.3.3 The following additions have been identified for approval.

Project	Cost £'000	New / Addition	Reason	Funding
Land Release Fund –	1,500	New – subject to approval by ARG on the	Additional, ringfenced capital funding has been awarded to perform decontamination of	Grant

Pinkham Way		14th of June 2018.	land at Pinkham way to support the development of residential properties	

1.3.4 Appendix B shows the additions, deletions, slippage, accelerated spend in relation to the 2017/18 capital programme and associated changes to funding. This is summarised in the table below:

	2017/18			**2018/19**		
Directorate	**Adds/ Deltns**	**Net Slippage**	**In year Change**	**Adds/ Deltns**	**Net Slippage**	**In year Change**
Adults and Communities	272	(71)	201	-	71	71
Commissioning	-	(3,079)	(3,079)	-	3,079	3,079
Education and Skills	-	(13,285)	(13,285)	-	13,285	13,285
Family Services	(648)	(2,332)	(2,980)	-	2,332	2,332
Housing Needs Resources	-	(5,605)	(5,605)	-	5,605	5,605
Parking and Infrastructure by Service	(11)	(314)	(325)	-	314	314
Regional Enterprise	(582)	(35,973)	(36,555)	-	35,973	35,973
Streetscene	(5)	(2,218)	(2,223)	-	2,218	2,218
HRA	196	(1,232)	(1,036)	-	1,232	1,232
Total Capital Movements	**(778)**	**(64,109)**	**(64,887)**	**-**	**64,109**	**64,109**

Capital Financing

Capital Programme Affordability

1.3.5 The revenue budget allocated to fund borrowing is less than required to support the existing capital programme. Given the lack of scope to increase revenue budget to support this over programming it is recommended that the Chief Executive presents options to the July 2018 Policy and Resources Committee to reduce the capital programme to fit within affordability levels. Some capital schemes (such as the development of new affordable housing) are immediately 'self-funding', and others lead to direct revenue benefits. The focus of the recommended reductions will therefore need to be those schemes which are a net drain on revenue. Community Infrastructure Levy will still be fully available to support investment in essential infrastructure.

Capital receipts

1.3.6 The Capital Programme is funded by an assumption of £75.017m in Capital Receipts. The profiling of the receipt of this income can often be difficult to predict. Where receipts are received ahead of plan it is financially advantageous to utilise them instead of borrowing and therefore minimising the revenue impact of the Capital Programme.

1.3.7 For 2018/19 the General Fund Capital Receipts requirement is substantial at £52.5m. At the start of the year the council held £1.4m in General Fund Capital Receipts. This means that an additional £51.1m is required to be generated in year to meet the financing requirements of the current Capital Programme.

1.3.8 The consequences of not achieving this level of receipts would be that the council will need to borrow more to meet the council's commitments. As discussed in earlier paragraphs this would have a detrimental impact on the revenue position of the council to the extent of £0.053m per £1m additional borrowing. This would increase the financial pressure discussed in paragraph 1.2.12.

1.3.9 The Capital Receipts position will be monitored closely and regular updates provided to both the Policy and Resources Committee and the Financial Performance and Contracts Committee.

1.4 Thameslink - Brent Cross West Station

1.4.1 The current total council Capital Budget for Thameslink is £70.6m as approved in September 2017 and is fully funded by a grant from MHCLG. Of the £70.6m budget, £35.2m has been committed to external parties, leaving an overall available budget of £35.4m.

1.4.2 The current anticipated cost envelope of the station project is £281m and the annual commitment profile for this is shown in the table below. The original Business Rates model indicated that this can be repaid in 13 years, within the overall envelope of the grant funding agreement.

BXT Commitment Profile (£m)

2017/18	2018/19
£35.2	£245.8

1.4.3 Based on the commitment profile the £70.6m approved budget will cover BXT project commitments until November 2018. At that point, further council funding of £181.2m is needed which would necessitate increased borrowing.

1.4.4 The revenue cost of this increased borrowing peaks at £9.7m per year. Officers are currently exploring the most effective way to deploy the various available funding streams to ensure that there is no detrimental impact on the council's revenue position.

1.4.5 The Brent Cross West Station is needed to facilitate the BXS development. The Committee confirmed its commitment for the council together with HM Government and the GLA to fund and build the Thameslink Station on 21 July 2014 and 16 May 2016. This was subject to the satisfaction of six tests agreed by the Committee on 21 July 2014 in order for the council to assure itself that the prudential code can be satisfied before borrowing could be undertaken for the Thameslink Station. These tests are:

a) A guarantee of ring-fencing (or equivalent assurance) of business rates received from HMT and CLG (100% if fully funded from business rates, 50% if partially funded from business rates and partially funded by grant);
b) Confirmation that business rates will still pay back borrowing in 25 years if estimates of total business rate expansion are reduced by 40%;
c) That interest costs are capped at no more than 4.5%;
d) That the expansion of Brent Cross Shopping Centre has reached the "point of no return", as verified independently;
e) That a fixed price has been received from Network Rail for the station build; and
f) That the general fund is in a sustainable position at the point of decision.

1.4.6 A detailed report will be prepared for Policy and Resources Committee later this year detailing the funding strategy against the six financial tests agreed by the Committee to consider whether to make the required capital commitment to fund the station project.

1.5 Medium Term / Strategic Planning for Financial Sustainability

<u>A New Corporate Plan and MTFS</u>

1.5.1 The updated MTFS at Appendix A displays the currently anticipated £9.5m overspend discussed earlier in this report. The document calculates an anticipated budget gap of £42m to 2021/22. High level calculations estimate this to be £62m when extended out to 2023/2024. Work to resolve this gap and address the medium-term challenge of financial sustainability is underway and is discussed further in this section of the report.

1.5.2 The MTFS takes into account national economic factors such as forecasts to Government spending and inflation, along with local factors which will have an impact on the council's budget such as population change, housing and development and other demand pressures on services.

1.5.3 Given the uncertainty with local government funding beyond 2020 due to the changes in Revenue Support Grant and Business Rates, the MTFS is prepared on the basis that government funding will continue as per 2019/20.

1.5.4 In light of the new administration, it is proposed to develop a new corporate plan for April 2019. The Conservative manifesto provided a range of indicative policy steers which need to be worked up in more detail to be reflected in the corporate plan and MTFS. These include

- keeping council tax low;
- getting a good deal for Barnet, from policing to fair funding;
- protecting and enhancing the local environment and green spaces;
- investing to ensure that we build successful communities;
- pushing for parity in mental health;
- supporting community cohesion;
- reviewing the way the council works and the best ways to deliver good services and value for money.

1.5.5 We propose developing a five-year corporate plan (2019-2024), underpinned by a rolling detailed three-year financial plan, and a financial forecast for years 4 – 5.

1.5.6 This ambition with regard to timing means following the usual budget setting timetable, e.g.

- June – September: focused work on the financial options for the next three years and a refresh of the vision, purpose and priorities of the corporate plan, including an update to P&R Committee in July.
- August - September: informal sharing and development of options with committee chairs.
- October – November: submission of proposals and draft corporate plan to committees.
- February – March: sign off by P&R Committee and Council.

1.5.7 Whilst it is a very tight timescale for developing the corporate plan, the benefits of this approach are as follows

a. Supports a “refresh” of our thinking and strategy to reflect our context, view of the future, and take account of the new administration;
b. Supports closer integration of the MTFS and corporate plan and a focus on shoring up the financial position for the next three years;
c. Shapes an updated narrative for partners and residents;
d. Provides a public document that can support a lobbying position;
e. Takes control of our situation; rather than waiting for certainty that might not come from central government.

1.5.8 Given the financial issues we face, any corporate plan has to be a costed plan, and directly aligned with the MTFS.

Responding to the financial sustainability challenge: Priorities & Spending Review

Our journey to date and learning

1.5.9 The Priorities & Spending Review (PSR) 2015-2020 was the council's strategic response to the financial challenge facing the council in 2015. The process sought to address the dual challenges of rising demand and budget reductions, and resulted in proposals for c. £51m of cumulative savings, against a target of £72m for the five-year period. Of the £51m, around 50% came from efficiencies and just 20% was categorised as "demand management". The remaining gap of £21m was closed using reserves.

1.5.10 The world has changed significantly in recent years. We are in a period of unprecedented uncertainty for local government and we face unanswered questions about the future funding and the critical issues for the sector, not least the sustainability of social care for adults and children.

1.5.11 We recognise that we need a different approach to financial sustainability: budgets have already been reduced; a range of services and functions have been outsourced to external providers; and the level of reserves for transformation and addressing gaps is significantly lower. This means our 'pie' and our room to manoeuvre are both smaller from the outset.

1.5.12 Simply creating a smaller, leaner, slicker version of what we have now will not create a sustainable model. We need to reimagine the council for the future. That inevitably has implications for how we frame the challenge, our strategic approach to finding solutions, and the choices we will need to make.

Strategic Response

1.5.13 There are some key ideas that shape our thinking about the strategic response to the challenge we face on financial sustainability.

i. We will need to challenge our assumptions and ask fundamental questions about the role of the Council and the role and aspirations of residents and businesses.

ii. We exist in a wider system. The challenge and opportunities facing the council do not sit neatly within the its organisational parameters. There is a need to explore not only what is in the council's direct control but also what is within the sphere of influence, whether locally, regionally, or nationally. That includes drawing in partners and communities to be part of the solution.

iii. The council's biggest areas of spend are mainly demand led (e.g. adults, children's and a lot of housing) and, therefore, an approach to managing demand effectively will have the biggest impact. Much demand is directly and indirectly caused by behaviour, which means we have an opportunity to prevent or reduce it.

iv. There's a win:win scenario where better outcomes cost less. For example, increasing the number of young adults with LD in employment can improve their outcomes and independence whilst reducing demand on social care budgets.

1.5.14 Our proposed strategic response incorporates **five key strands** for working towards financial sustainability and addressing the budget gap, which build on our work and learning to date.

1. **Growth and Development** – leveraging the social and economic benefits from regeneration, development, and inclusive growth, to improve outcomes and support the council's move to financial independence.
2. **Managing Demand** – taking an outcomes-based approach to reducing demand through effective early intervention and prevention. This includes helping people to help themselves; building community capacity and social infrastructure; meeting needs differently; and reducing and reshaping demand.
3. **Efficiency and Productivity** – maximising our use of resources, whether that is our staff, ways of working, contracts, providers, or delivery models.
4. **Income Generation and Commercialisation** – increasing the council's ability to generate its own revenue and exploit commercial opportunities.
5. **Decommissioning** - stopping activity or spend that does not align with council priorities or does not deliver value for money.

1.5.15 Additionally, we will look at exploiting the potential of technology in all five areas, for example through automation or meeting needs differently.

1.5.16 The underpinning assumptions of this approach include

- We continue to take a pragmatic approach to the delivery of services through a mixed economy model, but retaining strategic control.
- There is a very limited level of resources available for transformation.
- We continue to meet our legal and statutory responsibilities.

Implications of the Approach

1.5.17 There are key implications of this approach, if the council is to be successful.

a. Considering more radical options for the future of local services.
b. Making decisions to stop existing services or activities.
c. Changing the relationship with our communities, partners and stakeholders, and working collaboratively to co-produce solutions.
d. Looking outward to inject creativity and innovation into our thinking, especially on technology.
e. Reframing the problem: how do we best use our resources to improve outcomes for people and place so they don't need specialist council services and become net contributors to Barnet.
f. Needing to gain better insight into the drivers of demand to inform effective, targeted, intelligence based investment in early intervention and prevention.
g. Pursuing income generation, growth and commercial opportunities with a primarily commercial mindset;

h. Reviewing the organisational design of council and workforce model to ensure they are fit for purpose.

1.5.18 The financial position of the council means it is critical that we apply a very high degree of rigour and challenge to the options proposed for savings or income, in particular, the feasibility and quantification of financial benefits and any 'business case' for investment.

Making it Happen: practical steps

1.5.19 A refreshed PSR process was initiated in autumn 2017 to begin exploring the options for addressing the financial gap to 2024. Shortlisted options are presently being developed into outline business cases, with indicative financial benefits, but there is significantly more work to do in order to close the £62m gap.

1.5.20 The next phase of the PSR process will build on the work to date but also focus on shaping the options for the MTFS, including the immediate pressures, and inform the corporate plan. This will include:

- A review and refresh of the existing vision, purpose, and priorities for the corporate plan, taking account of the new administration's manifesto and the council's financial challenge.
- Updating the financial baseline: the level of budget and reserves with which we expect to start 2019/20.
- Applying planning targets to each service area to provide a sense of scale for developing options.
- Revisiting the long list of options generated through phase one of PSR.
- Further detailed work on the question of demand, to include quantifying avoidable demand; assessing the impact of current early intervention and prevention; and modelling the demand we can afford.
- Focused challenge sessions led by the Chief Executive and S151 Officer on decommissioning spend / activity.
- Temporarily diverting a small cohort of officers to focus full time on the in-year and medium term financial challenge. Without additional resources, this means some activities may need to be put "on hold" for a short period. Strategic Directors will take responsibility for overseeing this.

1.5.21 Further work is underway to develop the detailed activity plan and timescales to progress this work, including feasibility of options for engagement in addition to statutory consultation. This will be shared at a July 2018 P&R Committee.

The MTFS Assumptions

1.5.22 The main assumptions within the MTFS are:

- **Pressures:** an assumption has been made in the MTFS for future demographic pressures specifically for Adults and Children's Social Care costs. This is based on the latest demographic projections from the GLA and specific data from the Projecting Older People Population Information System (POPPI) and the Projecting Adult Needs and Service Information System (PANSI). Based on existing budget monitoring, underlying budget pressures have also been factored into the budget;
- **Inflation (pay):** the agreed pay award by Greater London Provincial Council is assumed for 2019/20 and then 1% increase for future years;
- **Inflation (non-pay):** contractual inflationary amounts have been included based on the CPI inflationary rates announced in the Spring statement 2018 by Treasury.
- **North London Waste Authority (NLWA) levy:** figures for the NLWA levy are based on the latest information from the NLWA.
- **Capital financing costs:** the council's borrowing requirement has been reviewed, taking into account the latest projections on the current capital programme spend;
- **Concessionary fares:** increases have been projected in line with demographic changes of the 60+ population in Barnet;
- **Business rates:** The assumption on business rates is that the pool will be in place for 2018/19 only and so future income is based on the original split of the council retaining 30% of the share of income which is assumed to be increased by the CPI rates.
- **Revenue Support Grant:** reflects the funding settlement announced for 2019-20
- **Social Care Precept:** the council has the flexibility of raising a maximum of 6% between 2017/18 and 2019/20 via the social care precept to spend exclusively on Adults social care, including care for the elderly. In 2017/18, the council set the Social Care Precept at 3% on council tax and a further 3% for 2018/19. Therefore 0% social care precept has been assumed from 2019/20.
- **General council tax:** a 2.99% increase has been assumed each year from 2019/20 onwards.

1.5.23 There are known risks which have not been factored into the current MTFS, these are:

- Impact of not achieving 50% recycling rates: the estimated impact of the new facility on the borough levy is an increase of £6m from 2021 onwards. However, this is predicated on achieving 50% recycling rate. Our current rate is c39% and whilst there are initiatives planned to achieve behaviour change through education and information, achievement of this will still require a change in current practices;
- Demographic increases and increases in complexity of social care packages: the MTFS factors in an increase in demographic pressures, however if the increase that services experience are more than this, then this could result in an overspend across those services impacted, as seen in 2017/18 in Adults services;

- Business rates: on the current business rates retention scheme, there is a risk that the current deficit will continue to grow. The increase in permitted development schemes will add to this pressure;
- Non-pay inflation: the current MTFS assumes a CPI increase in contract spend, however inflation on some of the contracts is being assessed at 4%, if this is the case on most of the contracts, then this could result in an overspend across services.

1.6 Council Tax Relief for Care Leavers

1.6.1 The Children's Services Improvement Action Plan recognises the need to improve outcomes for care leavers, and in particular to ensure that they have access to appropriate discretionary funds and reliefs, improve outcomes and ensure they are adequately prepared for independent living.

1.6.2 A briefing paper on council tax reduction for Barnet care leavers was finalised and presented to Corporate Parenting Advisory Panel on 3 February 2018.

1.6.3 The proposal was approved at Policy & Resources Committee on 13 February 2018 to authorise the Deputy Chief Executive to consult on a policy for offering council tax relief to care leavers based on guaranteed relief for their first two years of independent living, and a presumption in favour of granting relief should it be required after that up to age 25; and instruct the Deputy Chief Executive to bring the policy to a future meeting of the committee for approval.

1.6.4 The Consultation ran from 21st March to 20th May 2018 and received:

- 15 online survey responses from care leavers
- 4 facilitated discussion responses from care leavers
- 4 survey responses from other Barnet residents

1.6.5 The total number of care leavers that responded (n=19) equates to 8% of the total number of 18-25-year-old care leavers as at March 2018.

1.6.6 The majority of respondents strongly agree or agree with each element of the proposed policy. The recommendation is therefore to implement the Care Leaver council tax Reduction scheme, backdated to 1 April 2018.

1.6.7 A full breakdown of the consultation results can be found in Appendix C.

2. REASONS FOR RECOMMENDATIONS

2.1 Local Government as a whole continues to face significant reductions in funding and increased demand for services, as set out in the strategic context. These require continual longer term robust financial planning and the recommendations in this report support the plan to ensure that adequate budget provision is allocated to the council's service areas.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Should recommendation 2, specifically to repurpose the New Homes Bonus reserve to revenue, not be taken, the remaining non-ringfenced revenue reserves would be £22.2m of which £10m is already committed to underpin the 2019/20 budget.

4. POST DECISION IMPLEMENTATION

4.1 Following approval of these recommendations, the budget changes will be processed in the financial accounting system.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 This supports the Council's corporate priorities as expressed through the Corporate Plan for 2015-20 which sets outs the vision and strategy for the next five years based on the core principles of fairness, responsibility and opportunity, to make sure Barnet is a place:

- Of opportunity, where people can further their quality of life;
- Where people are helped to help themselves, recognising that prevention is better than cure;
- Where responsibility is shared, fairly;
- Where services are delivered efficiently to get value for money for the taxpayer.

5.1.2 The Corporate Plan will be refreshed and will align with the updated MTFS period to 2023/24. This update to the corporate plan may significantly change the priorities and performance measures of the Council.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The revenue budget proposals will enable the council to meet its savings target as set out in the MTFS. These budgets will be formally agreed each year, after appropriate consultation and equality impact assessments, as part of the council budget setting process. For this reason, the proposals are subject to change annually.

5.2.2 The council's financial regulations require that virements for allocation from contingency for amounts over £250,000 and capital programme additions must be approved by Policy and Resources Committee.

5.3 Social Value

5.3.1 None applicable to this report, however the council has to take into account the requirements of the Public Services (Social Value) Act 2012 to try to maximise the social and local economic value it derives from its procurement spend. The Barnet living wage is an example of where the council has considered its social value powers.

5.4 Legal and Constitutional References

5.4.1 Section 151 of the Local Government Act 1972 states that: "without prejudice to section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 111 of the Local Government Act 1972, relates to the subsidiary powers of local authorities.

5.4.2 Article 7 of the Council's Constitution sets out the terms of reference of the Policy and Resources Committee which include:

- Responsibility for strategic policy finance and corporate risk management including recommending: Capital and Revenue Budget; Medium Term Financial Strategy; and Corporate Plan to Full Council
- To be responsible for the overall strategic direction of the Council including strategic partnerships, Treasury Management Strategy and internal transformation programmes.
- To be responsible for those matters not specifically allocated to any other committee affecting the affairs of the Council.

5.4.3 The council's financial regulations state that amendments to the revenue budget can only be made with approval as per the scheme of virement table below:

Revenue Virements

Virements for allocation from contingency for amounts up to £250,000 must be approved by the Section 151 Officer in consultation with appropriate Chief Officer
Virements for allocation from contingency for amounts over £250,000 must be approved by Policy and Resources Committee
Virements within a service that do not alter the bottom line are approved by Service Director
Virements between services (excluding contingency allocations) up to a value of £50,000 must be approved by the relevant Chief Officer
Virements between services (excluding contingency allocations) over £50,000 and up to £250,000 must be approved by Chief Officer and Chief Finance Officer in consultation with the Chairman of the Policy and Resources Committee and reported to the next meeting of the Policy and Resources Committee
Virements between services (excluding contingency allocations) over £250,000 must be approved by Policy and Resources Committee

Capital Virements

Performance and Contract Management approval is required for all capital budget and funding virements and yearly profile changes (slippage or accelerated spend) between approved capital programmes i.e. as per the budget book. The report must show the proposed: i) Budget transfers between projects and by year; ii) Funding transfers between projects and by year; and iii) A summary based on a template approved by the Section 151 Officer
Policy and Resources Committee approval is required for all capital additions to the capital programme. Capital additions should also be included in the quarterly budget monitoring report to Performance and Contracts Committee for noting.
Funding substitutions at year end in order to maximise funding are the responsibility of the Section 151 Officer.

6. Risk Management

6.1 The Council has taken steps to improve its risk management processes by integrating the management of financial and other risks facing the organisation. The allocation of an amount to contingency is a step to mitigate the pressures that had yet to be quantified during the budget setting process.

6.2 The future savings proposals are significantly challenging and dependent on a range of factors often outside of the control of the service and with longer lead in times. The achievement of savings predicated on reducing demand through improved preventative work and social work practice should lead to better outcomes. However the relationship between early intervention/prevention and reduced demand on services is not always linear and is subject to a range of both controllable and uncontrollable variables. There is therefore a risk that the savings set out may not able be deliverable as the Council must always ensure that safeguarding of adults, children and young people, and meeting its homelessness obligations, remains paramount.

7. Equalities and Diversity

7.1 The Equality Act 2010 and The Public Sector Equality Duty outlined in statute, require elected Members to satisfy themselves that equality impact considerations have been fully taken into account in developing all the proposals which emerge from the finance and business planning process, and considered together with any mitigating factors. As part of the council's approach to strengthening how due regard is paid to equalities in decision making, the council will analyse the equality impact of each of those proposals in the budget year in question and will also develop a cumulative impact assessment of all the proposals. The council's Annual Equalities Report for 2016/17 reports on how this process was carried out in 2016/17.

7.2 Similarly, all human resources implications will be managed in accordance with the council's Managing Organisational Change policy that supports the council's Human Resources Strategy and meets statutory equalities duties and current employment legislation.

8. Corporate Parenting

8.1.1 In July 2016, the Government published their Care Leavers' strategy Keep on Caring which outlined that the ''… [the government] will introduce a set of corporate parenting principles that will require all departments within a local authority to recognise their role as corporate parents, encouraging them to look at the services and support that they provide through the lens of what a reasonable parent would do to support their own children.'

8.1.2 There are seven corporate parenting principles that local authorities must have regard to when exercising their functions in relation to looked after children and young people, as follows:

1. to act in the best interests, and promote the physical and mental health and well-being, of those children and young people;
2. to encourage those children and young people to express their views, wishes and feelings;
3. to take into account the views, wishes and feelings of those children and young people;
4. to help those children and young people gain access to, and make the best use of, services provided by the local authority and its relevant partners;
5. to promote high aspirations, and seek to secure the best outcomes, for those children and young people;
6. for those children and young people to be safe, and for stability in their home lives, relationships and education or work; and;
7. to prepare those children and young people for adulthood and independent living.

8.1.3 To ensure that Barnet has due regard to the Principles and improves on the delivery of corporate parenting to children in care and care leavers in Barnet, the administering of council tax relief has been reviewed and a proposed policy consulted on to help care experienced young people have a more successful transition to independence, through the provision of guaranteed relief in their first two years of independent living.

8.1.4 Young people, key services and senior officers have developed the proposed policy, which was amended based on feedback received from the care leavers that responded to the public consultation.

8.1.5 The introduction of the care leavers council tax policy will help improve the emotional and physical health of care experienced young people and contribute to the achievement of the best outcomes for this cohort.

9. Consultation and Engagement

9.1 In terms of service specific consultations, the Council has a duty to consult on proposals to vary, reduce or withdraw services in the following circumstances:

• where there is a statutory requirement in the relevant legislative framework;

• where the practice has been to consult or where a policy document states the council will consult then the council must comply with its own practice or policy;

• exceptionally, where the matter is so important that there is a legitimate expectation of consultation.

9.2 Consultation is also recommended in other circumstances, for example to identify the impact of proposals or to assist with complying with the council's equalities duties. Consultation will take place on individual proposals linked to projects as they are developed, and the outcome of the consultation will need to feed into Committees as decision are taken.

10. Insight

10.1 Information regarding population projections are sourced from the Greater London Authority and service specific demographic change information is sourced from specialist organisations.

11. Background Papers

Committee	Item & Agenda	Link
Full Council 6 March 2018	Item 12 Business Planning 2018-20	http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=162&MId=9162&Ver=4
Policy & Resources 13 February 2018	Item 13 Business Planning 2018-20	http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&MId=8742&Ver=4
Policy & Resources 21 July 2014	Item 6 Finance and Business Planning – Capital programme and review of reserves	http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=692&MId=7860&Ver=4